



## AMC (NYSE:AMC) Stock Is Surging: Is Cineplex (TSX:CGX) Next?

### Description

To say that **AMC Entertainment Holdings** ([NYSE:AMC](#)) is rebounding would be an understatement. At the time of writing this morning, AMC stock is up a jaw-dropping 255%. The stock is the latest target of Reddit users who have been disrupting the market this week.

Canadian investors may want to consider whether this wave of passionate retail buying could hit our homegrown theater chain, **Cineplex Inc.** ([TSX:CGX](#)). While these things are notoriously difficult to predict, here's a closer look at this Reddit-driven trend and its potential impact on Canadian stocks.

### Reddit targets

After following the story closely for the past few days and being part of the *WallStreetBets* subreddit myself, I think I've wrapped my head around what's happening.

Retail investors on Reddit have figured out a way to coordinate a "short squeeze" on specific stocks. This is a strategy that drives up the price of a stock that institutional investors have been betting against ("short selling"). When the price goes up, institutional investors have no option but to abandon their trades and cut their losses.

But to close a short trade, the investor must *buy the stock at the market price*. That drives the stock price *even higher*. This virtuous loop has been incredibly profitable for Reddit users this week.

Their targets tend to be beaten-down stocks that institutional investors are heavily betting against. AMC is their latest target, but they've also targeted Canadian tech giant **BlackBerry** this week which was up [40% on Monday alone](#).

### Cineplex fits the bill

Considering the strategy, Cineplex looks like an ideal target for Reddit users. The stock is severely beaten down. It's trading at one-third its value from a year ago. It's also a target for short sellers. 2.2 million of the company's total outstanding 62.34 million shares are held by short sellers.

Just like AMC, Cineplex could be a potential rebound stock. As more people get vaccinated and movie releases start lining up, Cineplex could see a spike in sales in the second half of the year.

To be clear, there's absolutely no way to predict which stock the Redditors will target next. The herd mentality is genuinely spontaneous and random. However, Cineplex looks like an undervalued rebound stock that could be ideal for a contrarian investor. Since it's already so beaten down, the downside risk could be limited.

Of course, there's plenty of upside if it catches the attention of Reddit users. But the stock could recover and deliver a reasonable return without the involvement of Redditors.

## Bottom line

This has been a fascinating week for investors. Average everyday investors have catapulted penny stocks into the stratosphere. They've also driven some hedge funds to verge of bankruptcy along the way.

One prominent journalist described it as "Occupy Wall Street for investing." That's probably the best way to describe it.

This movement isn't predictable and is highly speculative but should help you reconsider the risks of beaten-down stocks like Cineplex.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:AMC (AMC Entertainment)
2. TSX:CGX (Cineplex Inc.)

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